

Message Text

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TO USMISSION EC BRUSSELS

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FOL LONDON 14862 SENT ACTION SECSTATE NOV 13; REPEATED TO
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TAGS: EAGR, EEC, UK

SUBJ: SUGAR: PRODUCTION FORECAST

REF: STATE 245785

1. EMBOFFS DISCUSSED POINTS RAISED IN REFTTEL WITH
INTERNATIONAL SUGAR ORGANIZATION (ISO) EXECUTIVE
DIRECTOR JONES-PARRY AND ISO SECRETARY POLITOFF AT
LUNCH NOVEMBER 12. IN SUBSTANCE THEIR VIEWS ARE:
(A) FORECAST. STILL TOO EARLY TO DETERMINE WHETHER
STRUCTURAL CHANGES HAVE TAKEN PLACE IN WORLD SUGAR
MARKET BUT CONTINUING DEMAND GROWTH IS CERTAIN OVER
LONG TERM. IN THIS SITUATION SHORT-TERM FACTORS
AFFECTING SUPPLY CAN BE THE CRUCIAL DETERMINANT OF
PRICES. THUS THE ACCIDENT OF WEATHER MAY BE SINGLE,
MOST IMPORTANT FACTOR SUSTAINING CURRENT HIGH
PRICES. NEXT YEAR THE SITUATION COULD BE CHANGED
SUBSTANTIALLY IF WEATHER CONDITIONS, PARTICULARLY FOR
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BEETS, IMPROVE. (B) ISO STUDIES. THE ISO'S MOST

RECENT STUDY IS C(74)L6 OF MAY 31, 1974, FOR 1974-78 PERIOD. JONES-PARRY HAS GIVEN US A COPY ON A FYI BASIS (AS NON-MEMBERS WE ARE NOT ENTITLED TO IT) WHICH IS BEING POUCHED. HOWEVER, THIS DOCUMENT NOW UNDER ATTACK AND BOTH JONES-PARRY AND POLITOFF EMPHASIZED PROJECTIONS ARE "NOT GOOD"--PROBABLY NO BETTER THAN ANYBODY ELSE'S GUESS. (C) NEW INVESTMENT. THE ISO OFFICIALS WERE UNABLE TO QUANTIFY. IN RAMBLING DISCUSSION OF THE QUESTION, CONSENSUS WAS THAT THERE HAD BEEN SOME INDUCEMENT TO NEW INVESTMENT-BRAZIL AND CUBA ARE EXAMPLES--BUT TO EXPECT A MORE OR LESS AUTOMATIC RESPONSE IN THE FORM OF NEW CAPITAL INVESTMENT TO CURRENT HIGH SUGAR PRICES IS AN OVERSIMPLIFICATION. IN THIS REGARD, TWO IMPORTANT DAMPENERS ARE AT WORK: HISTORICAL EXPERIENCE AND THE INSULATING EFFECT OF GOVERNMENTS. REGARDING THE FORMER, PRODUCERS HAVE BEEN MADE CAUTIOUS BY THE VOLATILE NATURE OF THE SUGAR MARKET AND LONG PERIODS OF WEAKNESS. JONES-PARRY CITED AUSTRALIA, WHICH EXPANDED PRODUCTION ONLY TO RUN INTO A SITUATION OF WORLD OVERSUPPLY. CONCERNING THE ROLE OF GOVERNMENTS, THE ENTREPRENEUR LOOKS TO THE INTERNAL, LOCAL CURRENCY PRICE AND OTHER CONDITIONS SET BY THE AUTHORITIES RATHER THAN TO THE WORLD MARKET PRICE. THIS IS WHAT DETERMINES HIS PROFIT AND CONSEQUENTLY HIS WILLINGNESS TO INVEST (THE EC'S COMMON AGRICULTURAL POLICY IS A GOOD EXAMPLE OF SUCH INSULATION AND CONSEQUENT SKEWING OF OPPORTUNITY COSTS).

2. RE PARA 3 OF REFTTEL, THE ISO SECRETARIAT EXPECTS LITTLE TO BE ACCOMPLISHED IN THE FORTHCOMING (CEMBER 2-6) ISO MEETINGS. THEIR ASSESSMENT IS THAT THERE IS LITTLE DESIRE ON THE PART OF EITHER THE PRODUCERS OR THE CONSUMERS TO ENGAGE IN ANY CONSTRUCTIVE THOUGHT ON WHAT A NEW INTERNATIONAL SUGAR AGREEMENT SHOULD BE. WITH THIS IN MIND, JONES-PARRY SAID HE HAD RECENTLY CIRCULARIZED MEMBERS OF AD HOC WORKING GROUPS A AND B, RECENTLY ESTABLISHED FOR THE PURPOSE OF MAKING "A TECHNICAL EXAMINATION OF THE MATTER OF STOCKS," AND "PROBLEMS CONNECTED WITH PRICE INDEXATION," RESPECTIVELY, LIMITED OFFICIAL USE

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TO POSTPONE DELIBERATIONS UNTIL AFTER NEXT FEBRUARY'S UNCTAD MEETING. HE BELIEVES THAT THE OUTLOOK FOR THE WORLD MARKET IN GENERAL SHOULD BE MUCH CLEARER BY NEXT SPRING. HE SAID THAT US OBSERVER WILL BE INVITED TO ATTEND THE LAST TWO MEETINGS IN THE DECEMBER SERIES, THE MEETING OF THE CONSULTATIVE COMMITTEE ON DECEMBER 5 AND OF THE COUNCIL ON DECEMBER 6, SINCE, AS HE POINTED OUT, EVEN THOUGH LITTLE MIGHT BE ACCOMPLISHED, IT WAS IMPOR-

TANT FOR THE US "TO SHOW THE FLAG." (THE US WILL NOT ATTEND THE MEETING OF THE STATISTIC COMMITTEE WHICH WILL, PRESUMABLY, CONSIDER UPDATING MARKET PROJECTIONS.)

3. ALLUDING TO PROPOSED LATIN AMERICAN PRODUCER MEETINGS, JONES-PARRY DISMISSED THESE AS "MORE USELESS TALK." PREDICTABLY, HE ARGUED STRONGLY THAT A COMMODITY AGREEMENT WITH ECONOMIC PROVISIONS, INVOLVING BOTH PRODUCERS AND CONSUMERS--NOT CARTELIZATION EFFORTS--PROVIDED THE REAL ANSWER. HE SAID THAT IT WAS DIFFICULT FOR THE ISO WITH ITS LIMITED EXPERTISE TO COME UP WITH DETAILED PROPOSALS AT THIS TIME, BUT THAT THE FOCUS SHOULD BE ON ESTABLISHING A CONCEPT OF MINIMUM PRICE VIA A STOCKS POLICY AND PERHAPS WITH SOME FORM OF INDEXATION. A GOOD AGREEMENT, HE SAID, WAS NEEDED TO INDUCE ADEQUATE PRODUCTION OVER THE LONG TERM TO MEET NORMAL DEMAND GROWTH IN TRADITIONAL MARKETS, AND MORE IMPORTANTLY, FOR THE RAPIDLY GROWING DEMAND OF LDC CONSUMERS. SPIERS UNQUOTE INGERSOLL

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